

23 May 2024

Sunway

Priced to Perfection

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SUNWAY's 1QFY24 results met expectations. Its 1QFY24 core net profit rose 26% YoY on stronger property and construction billings and easing cost pressure. The outlook for its core property, construction and private healthcare segments is positive. We maintain our forecasts, fine-tune up our TP to RM2.47 (from RM2.42) but maintain our UNDERPERFORM call as valuations are rich.

SUNWAY's 1QFY24 core net profit of RM146.6m (adjusted for ICPS payments of RM25.7m) came in at only 17% and 19% of our full-year forecast and the full-year consensus estimate, respectively. However, we consider the results within expectations as we expect stronger earnings during the remaining quarters as progress billings accelerate for both property and construction arms.

YoY, its 1QFY24 revenue rose 12% driven largely by construction (+14%), property development (+16%), and quarrying (+34%) on higher volumes and average selling prices of aggregates and premix. Its core net profit (after accounting for ICPS payments) rose by a sharper 26% as the easing in cost pressures more than offset higher finance cost.

QoQ, its 1QFY24 revenue declined 24% on seasonally lower property sales and slower construction progress billings. However, its core net profit only declined by 18% thanks to higher contributions from associates and JVs.

Outlook. SUNWAY guided for positive outlook across its business segments. Its property division will continue to capitalise on new launches in established townships while its projects in Singapore are on track for handover in 2QFY24. Over the medium term, its project in Johor will benefit from the Johor-Singapore Special Economic Zone (JS-SEZ) and the Rapid Transit Link (RTS Link).

Meanwhile, its construction unit is eyeing opportunities in data centre building jobs, MRT3 and Penang LRT Mutiara Line work packages, and contracts from parent and sister companies. Its healthcare unit is poised to benefit from medical tourism amidst a weak MYR. Two new hospitals under its stable, i.e. Sunway Medical Centre Damansara and Sunway Medical Centre Ipoh are slated for opening in 4QFY24 and 1QFY25 respectively.

Forecasts. Maintained.

Valuations. We raise our SoP-TP of RM2.47 (from RM2.42) as we update our TPs for **SREIT (OP; TP: RM1.65)** and **SUNCON (MP; TP: RM3.16)**, and we maintain our 55% discount to RNAV for SUNWAY's property development segment (in line with industry peers) (see Page 3). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

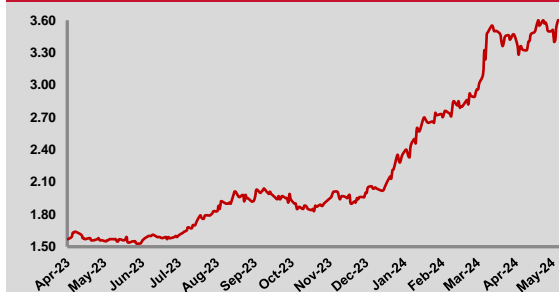
Investment case. We like SUNWAY for: (i) having an eye for good land parcels, enabling it to execute quick turnaround for its property projects, (ii) it growing private healthy business backed by a pipeline of new medical centres within brown field townships, (iii) a diversified range of investment assets that provides recurring incomes, and (iv) a trusted Sunway brand. However, its valuations are fair following the recent run-up in its share price. Maintain **UNDERPERFORM**.

Risks to our call include: (i) a strong pickup in the property, hospitality, and MICE sectors, (ii) a decline in mortgage rates boosting affordability; and (iii) Improved spending confidence, prompting consumers to buy big-ticket items including properties.

UNDERPERFORM ↔

Price : RM3.66
Target Price : RM2.47 ↑

Share Price Performance



KLCI 1,622.09
YTD KLCI chg 11.5%
YTD stock price chg 77.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	20,606.7
Shares Outstanding	5,630.2
52-week range (H)	3.66
52-week range (L)	1.53
3-mth avg. daily vol.	16,043,490
Free Float	27%
Beta	0.9

Major Shareholders

Sungei Way Corp SdnBhd	49.5%
Employees Provident Fund	11.0%
Active Equity SdnBhd	5.5%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	6,139.8	5,959.8	6,262.1
Operating Profit	664.4	672.3	713.5
Profit Before Tax	993.2	1,197.5	1,268.0
Net Profit	737.8	916.1	926.2
Core Net Profit	686.4	864.8	874.8
Consensus (NP)	-	786.8	859.1
Earnings Revision	-	-	-
Core EPS (sen)	11.6	14.7	14.8
Core EPS Growth (%)	9.7	26.0	1.2
NDPS (sen)	5.5	6.0	6.5
BVPS (RM)	2.3	2.4	2.5
PER (x)	23.3	18.5	18.3
PBV (x)	1.2	1.1	1.1
Net Gearing (x)	0.5	0.4	0.4
Net Div. Yield (%)	2.0	2.2	2.4

* Defined as core earnings attributable to ordinary shareholders excluding preferential dividends owing to ICPS issuances

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Results Highlight

	1Q FY24	4Q FY23	QoQ Chg	1Q FY23	YoY Chg	1Q FY24	1Q FY23	YoY Chg
FYE Dec (RM m)								
Revenue	1,419.0	1,868.8	-24.1%	1,263.7	12.3%	1,419.0	1,263.7	12.3%
Operating Expenses	-1,300.6	-1,732.2	-24.9%	-1,187.2	9.6%	-1,300.6	-1,187.2	9.6%
Other Operating Income	41.8	92.7	-54.9%	38.4	8.9%	41.8	38.4	8.9%
Net Impairment Losses	-1.7	-25.5	-93.3%	-1.5	10.2%	-1.7	-1.5	10.2%
Operating Profit	158.4	203.8	-22.2%	113.4	39.8%	158.4	113.4	39.8%
Net Interest Income/(Expense)	-26.0	-21.5	21.2%	-4.1	541.4%	-26.0	-4.1	541.4%
Associates/Joint Ventures	94.3	80.0	17.9%	82.7	13.9%	94.3	82.7	13.9%
Extraordinary Items	0.0	88.1	-100.0%	0.0	N.M.	0.0	0.0	N.M.
Profit before tax	226.7	350.4	-35.3%	192.0	18.0%	226.7	192.0	18.0%
Taxation	-35.7	-33.1	8.0%	-33.3	7.5%	-35.7	-33.3	7.5%
Minority Interest	-18.7	-51.4	-63.6%	-17.1	9.3%	-18.7	-17.1	9.3%
Net Profit	172.2	265.9	-35.2%	141.6	21.6%	172.2	141.6	21.6%
Core Net Profit	146.6	177.8	-17.6%	116.0	26.4%	146.6	116.0	26.4%
Operating Margin	11.2%	10.9%		9.0%		11.2%	9.0%	
Pretax Margin	16.0%	18.8%		15.2%		16.0%	15.2%	
Net Margin	10.3%	9.5%		9.2%		10.3%	9.2%	
Effective Tax Rate	15.8%	9.4%		17.3%		15.8%	17.3%	
Net Gearing (x)	0.50	0.53		0.50		0.48	0.45	

Source: Company, Kenanga Research

Segmental Breakdown

	1Q FY24	4Q FY23	QoQ Chg	1Q FY23	YoY Chg	1Q FY24	1Q FY23	YoY Chg
FYE Dec (RM m)								
Revenue								
Property Development	287.7	499.4	-42.4%	247.8	16.1%	287.7	247.8	16.1%
Property Investment	231.2	256.3	-9.8%	209.9	10.1%	231.2	209.9	10.1%
Construction	372.5	532.8	-30.1%	327.9	13.6%	372.5	327.9	13.6%
Trading and Manufacturing	241.4	260.1	-7.2%	224.1	7.7%	241.4	224.1	7.7%
Quarry	104.8	124.8	-16.0%	78.2	34.0%	104.8	78.2	34.0%
Healthcare	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Investment Holdings	2.4	23.7	-89.7%	0.0	N.M.	2.4	0.0	N.M.
Others	179.0	171.8	4.2%	175.8	1.8%	179.0	175.8	1.8%
Total Revenue	1,419.0	1,868.8	-24.1%	1,263.7	12.3%	1,419.0	1,263.7	12.3%
Profit Before Tax								
Property Development	38.8	69.0	-43.8%	23.1	68.2%	38.8	23.1	68.2%
Property Investment	69.4	68.5	1.4%	67.2	3.2%	69.4	67.2	3.2%
Construction	42.4	62.8	-32.5%	39.5	7.2%	42.4	39.5	7.2%
Trading and Manufacturing	9.0	12.0	-25.2%	9.6	-6.4%	9.0	9.6	-6.4%
Quarry	11.1	9.4	18.2%	3.5	218.1%	11.1	3.5	218.1%
Healthcare	36.8	41.7	-11.8%	28.8	27.6%	36.8	28.8	27.6%
Investment Holdings	6.6	-3.0	-319.9%	0.0	N.M.	6.6	0.0	N.M.
Others	12.6	2.0	543.1%	20.3	-37.9%	12.6	20.3	-37.9%
Total Profit Before Tax	226.7	262.3	-13.6%	192.0	18.0%	226.7	192.0	18.0%
Pre-tax Margin								
Property Development	13.5%	13.8%		9.3%		13.5%	9.3%	
Property Investment	30.0%	26.7%		32.0%		30.0%	32.0%	
Construction	11.4%	11.8%		12.0%		11.4%	12.0%	
Trading and Manufacturing	3.7%	4.6%		4.3%		3.7%	4.3%	
Quarry	10.6%	7.5%		4.5%		10.6%	4.5%	
Healthcare	N.M.	N.M.		N.M.		N.M.	N.M.	
Investment Holdings	271.6%	-12.8%		N.M.		271.6%	N.M.	
Others	7.0%	1.1%		11.5%		7.0%	11.5%	
Total Pre-tax Margin	16.0%	18.8%		15.2%		16.0%	15.2%	

* Discrepancies exist in the segmental breakdown as compared to group-level numbers due to the unavailability of its restated numbers

^ excluding extraordinary items

Source: Company, Kenanga Research

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SUNWAY's SoP		
Segment	Value (RMm)	Valuation basis
Property Development	3,743.7	55% discount to RNAV
Property Investment (backed by 40.9%-owned associate Sunway REIT)	2,775.5	Kenanga's TP of RM1.65 for SREIT
Construction (via 54.4%-owned Sunway Construction)	2,216.5	Kenanga's TP of RM3.16 for SunCon
Trading & Manufacturing	401.0	P/E of 10x on FY24 earnings
Quarry	112.5	P/E of 12x on FY24 earnings
Healthcare	5,760.0	15x on FY25 EV/EBITDA
Investment Holdings & Others	245.0	P/E of 7x on FY25 earnings
Net cash / (debt) at holding company level	-600	As at 31 Dec 2023
Aggregate Valuation	14,674.7	
No of shares (m)	5,941.4	
FV per share (RM)	2.47	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)		ROE		Net Div. (sen)		Net Div Yld.	
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.
PROPERTY																					
ECO WORLD DEVELOPMENT GROUP	UP	1.56	1.27	-18.6%	4,593.2	Y	10/2024	9.7	10.0	5.2%	3.6%	16.1	15.5	0.9	5.9%	6.0	3.8%				
IOI PROPERTIES GROUP BHD	UP	2.50	1.75	-30.0%	13,765.4	N	06/2024	14.1	14.4	23.5%	2.0%	17.7	17.3	0.6	3.4%	4.5	1.8%				
MAH SING GROUP BHD	OP	1.44	1.60	11.1%	3,686.6	Y	12/2024	10.2	11.0	14.6%	8.5%	14.2	13.1	0.9	6.5%	4.0	2.8%				
MKH BHD	OP	1.37	2.11	54.0%	791.0	Y	09/2024	18.0	20.1	41.8%	11.2%	7.6	6.8	0.4	5.3%	6.0	4.4%				
S P SETIA BHD	UP	1.53	0.800	-47.7%	7,249.8	Y	12/2024	5.9	6.1	16.0%	2.7%	25.9	25.3	0.4	1.9%	5.5	3.6%				
SIME DARBY PROPERTY BHD	MP	1.07	1.08	0.9%	7,276.9	Y	12/2024	6.3	6.5	7.1%	3.8%	17.1	16.4	0.7	4.1%	3.0	2.8%				
SUNWAY BHD	UP	3.66	2.47	-32.5%	20,606.7	Y	12/2024	14.6	14.7	26.0%	1.2%	25.1	24.9	1.4	6.0%	6.0	1.6%				
UOA DEVELOPMENT BHD	MP	2.00	1.79	-10.5%	4,980.8	Y	12/2024	10.6	10.4	19.3%	-2.1%	18.8	19.3	0.8	4.5%	6.5	3.3%				
SECTOR AGGREGATE					62,950.5					18.8%	2.7%	19.6	19.1	0.8	4.7%		3.0%				

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	☆		
	Anti-Corruption Policy	★	★	☆		
	Emissions Management	★	★	☆		
SPECIFIC	Product Quality & Safety	★	★	★	★	
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★		
	Biodiversity & Conservation	★	★	★	☆	
	Green Building	★	★	★		
	Supply Chain Management	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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